HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Halifax CMA

CANADA MORTGAGE AND HOUSING CORPORATION

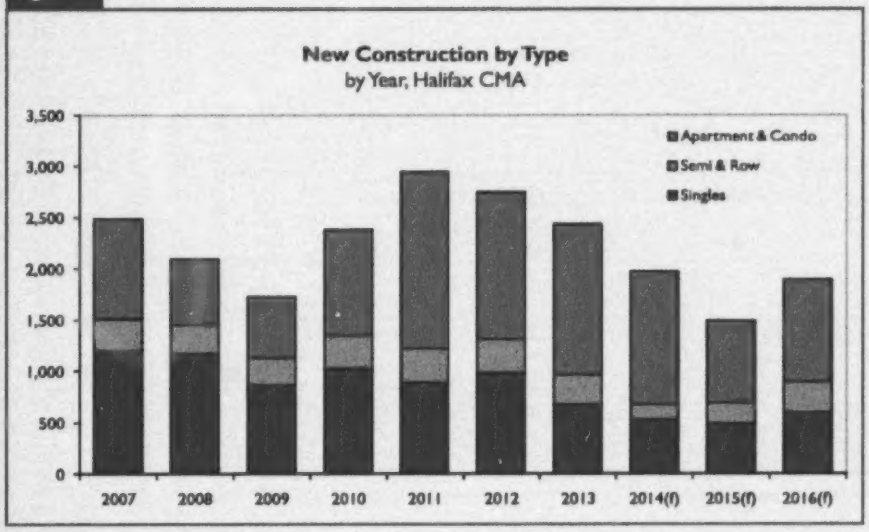
Date Released: Fall 2014

Highlights

- Apartment starts will edge lower in 2015 before picking up again in 2016
- MLS® home prices to grow below level of inflation over the forecast period
- Single-detached starts to remain below 10-year historical average
- Vacancy rate will rise as apartment universe increases

Figure 1

New Construction by Type
by Year, Halifax CMA



Source and Forecast: CMHC

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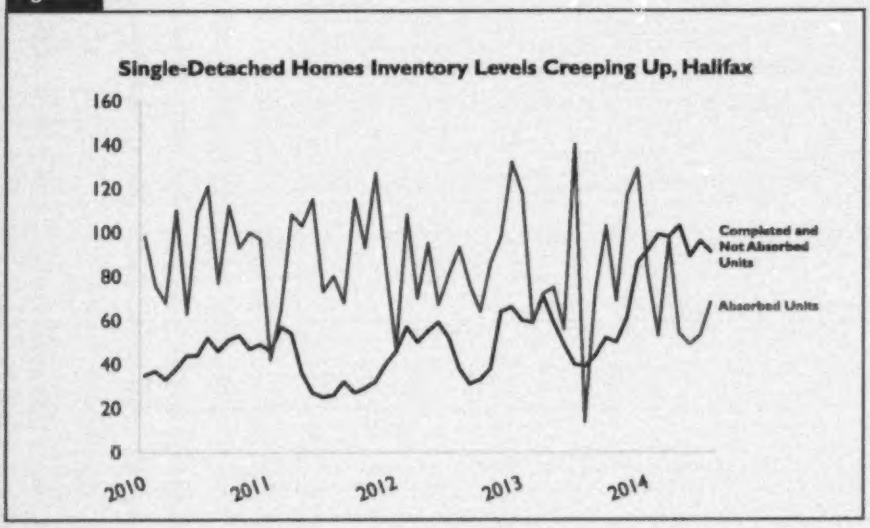
Figure 2



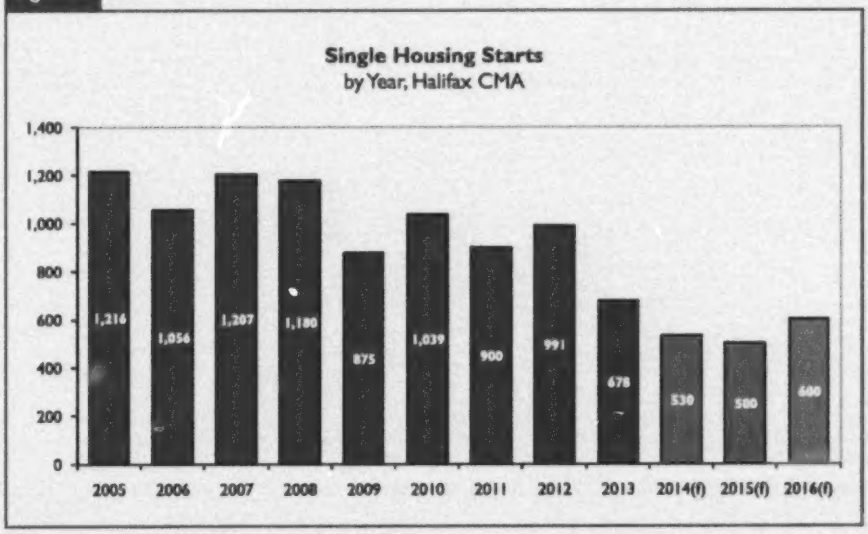
Source: CMHC

Share of Total Construction Activity Favours Multiple-Family Construction

While the posted interest rate is expected to inch up marginally over the next couple of years, hence supporting demand, relatively weak economic and demographic fundamentals will subdue the housing market in the Halifax Census Metropolitan Area (CMA) over the forecast period. The deceleration observed in 2013 provides evidence that the local housing market is on a path to a lower level of starts activity. Housing starts are forecast to total 1,980 units in 2014, 1,500 units in 2015, and edge up to 1,900 units in 2016. While the strength of apartment-style units (including both rental and condominium) will make up the lion share of all starts for the next three years, fewer projects slated to break ground in 2015 will bring down total construction activity before picking up again in 2016. Higher inventory of unabsorbed single-detached homes will encourage developers to tap the brakes over the forecast period.

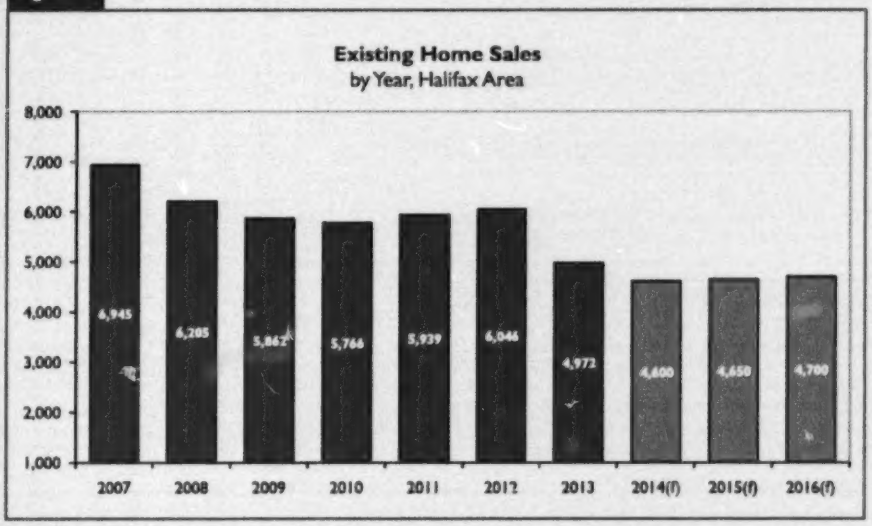
Since 2011, multiple unit starts have recorded approximately 70 per cent of all construction starts per year. This trend is expected to continue during the forecast period. In the past, the overwhelming majority of these starts tended to be purpose-built rental units. However, this year and next, it is expected that a growing share will be offered as condominiums. Two market realities can explain the rise in condominium construction. Condominiums are typically located downtown and provide superior access to amenities and services. Such appeal coupled with elevated design standards makes the condo units a palatable choice for first-time homebuyers, owner-investors or empty nesters. In addition, the completion of 3,500 rental units since December 2012 has pushed up the vacancy rate, therefore encouraging developers to diversify the supply of available real estate offerings. As a result, expect 1,450 multiples this year, 1,300 of which will be apartment units. In 2015, expect some softening in multiple starts to 1,000 units, including 800 apartment units, before a gradual pick up in 2016 to 1,300 multiple units including 1,000 apartment units. The reduction forecasted in 2015 is a function of project timing, rather than demand being curtailed, where a smaller number of projects are

Figure 3



Source and Forecast: CMHC

Figure 4



Source: Nova Scotia Association of REALTORS® & CREA
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Forecast: CMHC

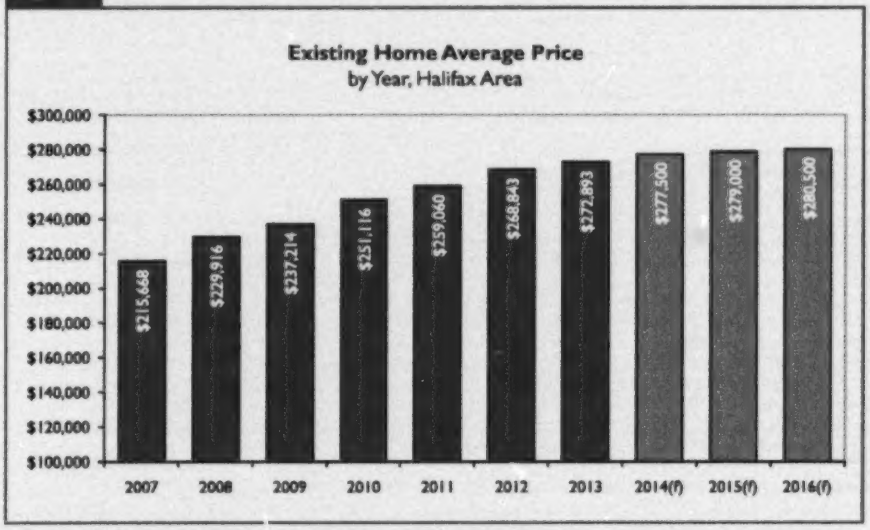
expected to break ground.

In 2014, the new single-detached home market has marched to the same cadence as 2013 thus far. The 678 starts recorded in 2013 marked a 30 per cent decline from the ten-year average of 991 starts. The trend over the forecast period will be an extension of averages recorded in 2013 and 2014. Rapid price growth over the past decade and weak employment growth over the past five years continue to exert a lagging effect on the number of single-detached starts. As of today, however, the inventory of completed and unabsorbed homes will encourage less new construction over the forecast period. For instance, it has been typical to have between 30-50 unabsorbed homes between April and September, yet in 2014 the volume increased to the 80-100 range.

This is further evident in the absorption rate thus far this year, where 546 units have been absorbed compared to 856 in 2013. The inventory build-up should impact starts over the forecast period, as it is expected that the absorption of units will precede some new construction starts.

The reduction in starts has yet to create a material impact on new home prices. As of August, the average price of an absorbed single-detached home was $417,954 with a median price of $379,000 which means that above average priced homes exert upward pressure on price levels. Whereas in most submarkets, the spread is quite thin between average and median price, Bedford — Hammonds Plains recorded a median price $449,900 and an average price of $540,135, and Halifax County Southwest recorded a median price of $397,000 and an average price of $460,127. The skewness of the average house price denotes that some of the new homes built in these two submarkets are significantly above the average house price for an absorbed single-detached home. While these two submarkets account for over 25 per cent of all absorbed new homes, the average price is counterbalanced by the submarkets of Fall River — Beaver Bank and Halifax County East where land values are less expensive.

Figure 5



Source: Nova Scotia Association of REALTORS® & CREA
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Forecast: CMHC

Figure 6

Source and Forecast: CMHC

Expect single-detached home starts to reach 530 units in 2014 as the inventory build up, low employment growth, and higher prices shift demand toward the resale or rental markets. Although the Gross Domestic Product topped two per cent for two consecutive quarters, it has not been associated with job creation in Nova Scotia. In 2015, expect starts to remain sluggish at 500 units before rebounding to 600 in 2016. In terms of prices, growth will remain below the inflation mark and should inch up marginally over the forecast period.

2013 MLS® Sales Volume Sets New Trends

With just under 5,000 transactions completed last year, the MLS® sales volume has declined approximately 20 percent from its ten-year average of 6,000 sales. At the end of August 2014, the transaction volume showed 3,363 sales, a deficit of over 300 sales from the previous year, suggesting that the sales count forecasted for this year should be set at 4,600 sales. The forecast period of 2015 and 2016 will show marginal gains to 4,650 and 4,700 sales.

Compounding the issue of weaker sales volume, the number of active listings has increased throughout all submarkets. At the end of August, the Halifax CMA reported over 4,500 active listings. For instance, active listings in Halifax City increased 20 per cent to 934 and active listings in Dartmouth increased 18 per cent to 828.

Pairing weak sales volume and elevated listings suggest that market conditions will favour buyers over the forecast period. As a result, price growth is expected to be weaker than inflation over the forecast period.

At the end of August, the average MLS® sale price of a home increased to $278,063 compared to $274,717 in 2013. The average sale price growth of 1.2 per cent recorded this year supports buyer's market conditions which are likely to subsist over the forecast period. This modest level of appreciation is expected to close in at one per cent growth at the end of year, which would be below the 1.9 per cent consumer price index inflation rate for NS so far this year. The price forecast follows a similar trajectory where it is expected that price growth will be around 0.5 per cent each year reaching an average MLS® price of $279,000 in 2015 and $280,500 in 2016.

While Halifax City and Dartmouth City have reported price losses of 1.4 and 2.0 per cent respectively, the larger positive gains recorded have been in Bedford-Hammonds Plains with 1.2 per cent, in Halifax County East with 3.4 per cent and, outside Halifax CMA with 5.1 per cent.

Another factor supporting a buyer's market is the sales-to-new listings ratio which ranges this year between 38 and 44 per cent. Typically, a balanced market sees a ratio between 45 and 55 per cent. The recent ratio suggests the market shifted over the past two years to a buyer's market. In addition, the average days on market provides a key indicator to evaluating the dynamics of the housing market. In 2014, it now takes an additional 8 days to sell a house, where the average for Halifax CMA has moved from 91 days to 99 days. Markets with typically lower average days on market such as Halifax City with 82 days and Dartmouth City with 69 days have also seen their average increase to 93 and 87 days respectively.

The current conditions as noted, in the resale market, are expected to persist and remain entrenched in the Halifax MLS® market over the forecast period. Sales activity and price are expected to increase marginally for 2015 and 2016. However, sales volume will remain 20 per cent below the ten-year average and this trend will continue to shape the housing market over the forecast period. Sustained

demand for rental apartments will continue to nibble away at the resale and new home market, resulting in a continuation of buyer's market conditions for 2015 and 2016.

Purpose Built Rental Units to Drive Housing Market

Construction of purpose built rental units is expected to remain above its ten-year average over the forecast period. The completion of over 2,100 rental units in 2013 will push up the vacancy rate to 4.5 per cent in 2014, 4.8 per cent in 2015, and 5.0 per cent in 2016. This year, however, only 409 units have completed thus far in 2014 which should provide additional time for the absorption of units completed in 2013. The local market universe has grown two per cent last year and demand for units continues to offset a significant portion of the new supply.

For the past five years, the lion share of housing construction activity in Halifax CMA has largely been focussed on rental apartment construction, albeit 2014 and the forecast period is expected to include a growing share of condominium units. In 2012, 1,437 apartment units were started in Halifax. The number of starts remained nearly equal in 2013 with 1,474 units. The forecast is 1,300 apartment units in 2014, 800 units in 2015, and 1,000 units in 2016. The fluctuation in supply for the forecast period is less a function of the market, as it is more the result of less projects coming through the pipeline in 2015.

Demand for rental units is expected to remain strong over the forecast period. The newer stock, with emphasis on spaciousness and high-end finishes, has attracted many young retirees who over the past few years generated strong market demand for one-floor accommodations and a maintenance free lifestyle. In 2006, more than 35 per cent of renter households were over 55 years old. This trend is likely to persist over the forecast period.

The average rent is expected to increase over the forecast period primarily due to the addition of new, higher end units to the local universe. New units typically rent for much more than the average bedroom rent, therefore exerting upward pressure on rents. Expect the average rent for a two-bedroom unit to reach $995 in 2014 before climbing 1.5 per cent to $1,015 in 2015 and to $1,025 in 2016.

Job and Population Growth at a Standstill

Population growth in Halifax CMA has been driven almost exclusively by migration in recent years. The numbers for 2014, however, suggest a notable deceleration in the number of migrants establishing themselves in Halifax. Net migration recorded at the end of 2013 stood at 551 migrants, underscoring migration levels similar to the early 2000s, a period of significant out-migration to Western Canada. As a result, the population of the Halifax CMA grew approximately by 1,800 people. Migration is expected to remain within the range recorded in 2013, yet contributing minimally to household formation in the Halifax CMA.

The economy of Nova Scotia is expected to record 0.5 per cent growth in 2014. Economic growth throughout the province will largely be influenced by the performance of Halifax and gas production from Sable Island and Deep Panuke. On the employment front, both the part-time and full-time sectors have posted losses year-over-year to the end of August. The lack of job growth has also coincided with a decrease in the unemployment rate from 6.4 to 6.1 per cent, which can be attributed to a shrinking labour force or people exiting the labour market.

Increases in full-time positions are a key driver to help stimulate housing demand, as they often provide the security and stability required for individuals to access credit. Overall job growth is flat this year but full time employment is up 0.3 per cent year-to-date. Expect employment growth in the Halifax CMA to remain modest over the forecast period, with growth stemming from manufacturing and the site preparation associated with shipbuilding activities.

Real wages in the Halifax CMA are expected to increase marginally in the latter half of 2014. Nominal earnings have climbed 2.3 per cent to $848.62 so far to the end of August. Increases in earnings adjusted for inflation impact housing demand by increasing the amount of choice for consumers. A consumer with more discretionary income has more housing options available and therefore may elect to consume more housing by renting a more expensive unit, move into homeownership or invest in the housing market. Yet, the most recent trend suggests that individuals are spending their increase in discretionary income on retail goods, as retail sales in July 2014 climbed 3.9 per cent over July 2013.

Mortgage Rates are Expected to Remain Unchanged until the Latter Months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects

interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	Employment in Halifax CMA has been relatively flat over the past four years. Minimal losses were recorded in the first eight months of 2014 and were accompanied with a decline in the labour force. Employment levels continue to remain stable and support housing demand.
Income	The increase in the average weekly earnings in Halifax CMA was above the rate of inflation in 2014. The increase in discretionary income should stimulate housing demand.
Net Migration	Out-migration throughout Nova Scotia has trended upward in 2014, exerting negative pressure on housing demand. However, previous gains in the Halifax CMA continue to contribute to housing demand.
Natural Population Increase	Overall population growth in the Halifax CMA is weak and this will impact housing demand moving forward.
Resale Market	Resale market conditions in Halifax CMA are expected to remain in a buyer's market due to lower sales and higher inventory levels.
Other	The preparations for shipbuilding activity continue to take shape and this will contribute to housing demand by 2015. Gross domestic product is beginning to see the benefits of increased gas production from Deep Panuke and additional support for new gas exploration activity.

Forecast Risks

This outlook is subject to some risks, including:

- Significant declines in international immigration could limit demand over the forecast horizon.
- A stronger than expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.
- Recent levels of housing starts are expected to impact the number of newly completed and unoccupied units in inventory during the forecast period. Should the inventory increase faster than expected, builders may delay or reduce the size of some housing projects. This could lead to a sharper-than-expected moderation in housing starts.
- Elevated levels of household debt and house prices in some urban centres have made the province's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.
- Recent levels of apartment starts are expected to impact the vacancy rate further in 2014, 2015 and 2016. If the vacancy rate increases faster than expected, construction projects could become delayed.

Forecast Summary
Halifax CMA
Fall 2014

	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	900	991	678	530	-21.8	500	-5.7	600	20.0
Multiples	2,054	1,763	1,761	1,450	-17.7	1,000	-31.0	1,300	30.0
Semi-Detached	170	190	120	75	-37.5	125	66.7	150	20.0
Row/Townhouse	160	136	167	75	-55.1	75	0.0	150	100.0
Apartments	1,724	1,437	1,474	1,300	-11.8	800	-38.5	1,000	25.0
Starts - Total	2,954	2,754	2,439	1,980	-18.8	1,500	-24.2	1,900	26.7
Average Price ($):									
Single-Detached	400,405	426,885	396,929	405,000	2.0	420,000	3.7	440,000	4.8
Median Price ($):									
Single-Detached	360,000	379,900	364,450	380,000	4.3	390,000	2.6	400,000	2.6
New Housing Price Index (% chg.)	1.7	2.2	2.6	0.5	-	1.4	-	1.7	-
Resale Market									
MLS® Sales	5,939	6,046	4,972	4,600	-7.5	4,650	1.1	4,700	1.1
MLS® New Listings	10,160	10,336	10,450	10,550	1.0	10,550	0.0	10,700	1.4
MLS® Average Price ($)	259,060	268,843	272,893	277,500	1.7	279,000	0.5	280,500	0.5
Rental Market									
October Vacancy Rate (%)	2.4	3.0	3.2	4.5	1.3	4.8	0.3	5.0	0.2
Two-bedroom Average Rent (October) ($)	925	954	976	995	1.9	1,015	2.0	1,025	1.0
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	223,900	225,100	227,300	228,400	0.5	228,400	0.0	229,600	0.5
Employment Growth (%)	1.3	0.5	1.0	0.5	-	0.0	-	0.5	-
Unemployment rate (%)	6.0	6.1	6.6	6.6	-	6.6	-	6.4	-
Net Migration	4,755	3,139	551	900	63.3	900	0.0	1,200	33.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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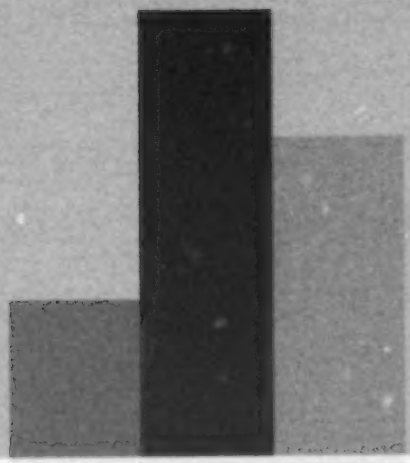

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- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
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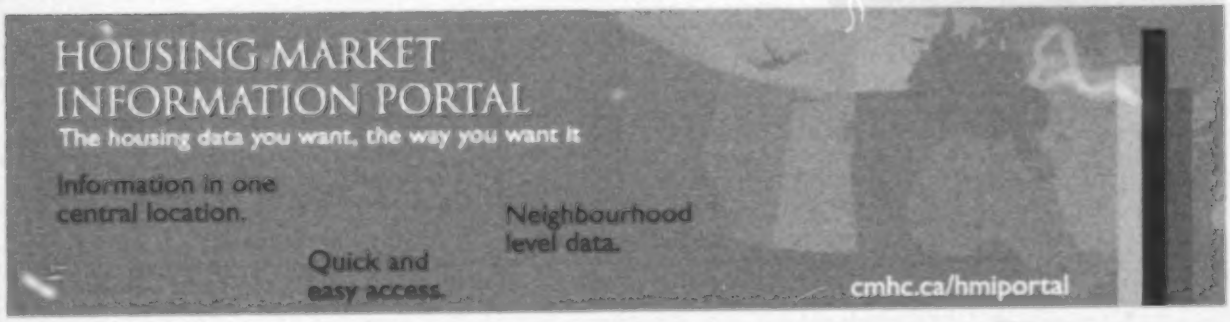
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Information in one central location.
Quick and easy access.
Neighbourhood level data.
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